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The top 10 best-performing ESG funds of the decade
By Rob Burgess
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Interest in ESG investing has soared in recent years.

ESG has become more material to over two-thirds of asset owners' investment processes in the previous five years, and every asset owner surveyed in a Morningstar report issued last month is allocating at least a portion of their assets to strategies that take ESG factors into account. (The Voice of the Asset Owner Survey 2024 surveyed 500 asset owners worldwide representing $18 trillion of assets under management.)

In addition, many ESG investments have generated substantial returns. Over the past decade, the top 20 sustainable funds have garnered an average yearly return of 13.57%, according to Morningstar Direct. In the past 12 months, their average gain was 18.29%. The below ranking shows the top 10 best-performing ESG funds of the prior 10 years.

Despite some political pushback, many clients continue to see the appeal of products that use ESG criteria, according to Peter Krull, partner and director of sustainable investing at Earth Equity Advisors in Asheville, North Carolina.

"For the majority of our clients, we manage all of their investments," he said. "Our clients want all of their investments to be sustainable, not just a portion. It wouldn't make sense to them to hold fossil fuel companies in one account while they are trying to invest in climate solutions in another."

Krull said a sustainable portfolio is one built from the ground up, focusing on investing in the new economy, which includes "companies and solutions for a cleaner, more resource-efficient, resilient and equitable world."

"Many ESG funds are created by layering ESG metrics over top of traditional indexes, which just makes a 'less bad' version of the original index, not a sustainable investment," he said.

Clients' attraction to investments that reflect their principles or a thesis tied to them have pushed what used to be known as socially responsible investing (SRI) into their current moniker of ESG. That also opened the door to values-based investing (VBI), in which client's deeply held spiritual beliefs are reflected in their portfolios.

ESG and the 'culture' of investing
The nonprofit endowments in the Pacific Northwest that work with Chris Magaña, a strategic advisor and principal at IMS Capital Management in

Portland, Oregon, view ESG as being "as much a part of our culture as Subarus, fancy coffee or farmer's markets."

"Our clients make their intentions known by mandate or with a heavy thumb on the ESG scale," Magaña said.

Sam Adams, co-founder and CEO of Vert Asset Management in Sausalito, California, said his firm has seen increasing demand for ESG investments, particularly from institutional asset owners.

"As has often been the case with newer investment disciplines that are still maturing, it is often institutional investors who are the early adopters," he said. "They have the resources to figure out how to integrate the new data into their investment programs. A good ESG investment does not sacrifice performance for sustainability — rather, it reduces some downside risk or tilts to sustainable leaders without reducing expected returns."

The customers of Kristin Hull, founder and CIO of Nia Impact Capital in Oakland, California, have also been asking for portfolios that use ESG criteria, she said.

"Clients are concerned about the risks to the financial performance of their portfolios and the risks to the planet of holding fossil fuel and polluting companies," she said. "Clients want to know that we, as asset managers, consider both ESG risks and opportunities when making investment decisions. They also want to see these smart investment tools incorporated into their portfolios."

Other clients are clear that they want their financial investments to reflect their values and views of the world, said Hull.

"A strong ESG investment takes into consideration both the risks and the potential rewards for adding extra due diligence in the areas of environmental, social and governance aspects of the company," she said. "We take this due diligence a step further and we engage with each of the companies on relevant E, S and G topics using our investor voice to strengthen companies in both their environmental sustainability as well as their human capital management."

'Sentiment is a fickle thing'

When it comes to evaluating an ESG investment, Magaña said his team starts by digging deep and defining what ESG means for each client.

"'ESG' is often a catch-all term disconnected from their mission and core values," he said. "Is the nonprofit's focus on education? That usually means cutting out firearm exposure. Do they target environmental polluters? Then avoiding big oil is non-negotiable. We begin with a crucial baseline: benchmark returns aren't a fair comparison. Plain and simple: excluding large sectors or companies should cause tracking errors and bouts of weaker performance."

The next step, is to "take a scalpel to fees," Magaña said.

"With S&P 500 strategies almost free, an ESG strategy better not come with a price tag five to 10 times higher for the same category exposure," he said. "Too many investment marketers have discovered that slapping ESG in the strategy's name can translate into less focus on fees and performance."

Successful ESG investing demands a "ruthless" focus on costs and being ready for returns that won't mirror the index over some investment periods, Magaña said.

"We believe true ESG investing is about holding the line on core values and taking a long-term perspective on wealth creation," he said.

However, performance rather than principles has been the main driver of ESG investment in recent years for clients of Ben Lies, the president and chief investment officer at Delphi Advisers in Vancouver, Washington, said.

"The high-level screening procedure for most ESG funds is low carbon emissions and lots of DEI initiatives, so most ESG funds tend to have low exposure to energy, materials, utilities, industrials and real estate and high exposure to technology," he said. "Over the last 10 years tech has trounced the rest of the market so by default these ESG funds have done well but not actually because they are ESG."

In the current environment, it is easy and socially popular to be an "ESG investor" because of big technology and its out-performance in recent history, Lies said.

"However, when the tides turn, and tech becomes a long-term under-performer, and we see the 'dirty' sectors start to lead again, you will see sentiment for ESG investing wane," he said. "Everyone is willing to keep up with the Joneses when it has no consequences but there is no such thing as a free lunch, as they say. Sentiment is a fickle thing."

Scroll down the slideshow below for the best-performing ESG open-end funds and ETFs of the decade, as ranked by their 10-year returns.

Notes: All data is from Morningstar Direct and is current as of Oct. 4, 2024. (According to Morningstar, these are classified as "ESG" funds according to its Sustainable Investment/ESG framework. Also, Morningstar adopted this methodology in 2018. Some of the funds in this spreadsheet might have transitioned or re-branded to become "ESG" focused at a certain point in time over the past decade. Therefore, some of these funds might not have been "ESG" focused when they were first started.)

10 Alger Responsible Investing A (SPEGX)

ALGER
Alger Management, Ltd.

Fund size	$96.81 million
Expense ratio	1.09
1-Year return	37.10%
10-Year annualized return	13.44%

9 Calvert Equity A (CSIEX)

Fund size $6.92 billion

8 Pioneer A (PIODX)

Pioneer

Fund size	$9.12 billion
Expense ratio	0.93
1-Year return	40.98%
10-Year annualized return	13.79%

7 Vanguard FTSE Social Index I (VFTNX)

Fund size	$21.74 billion
Expense ratio	0.12
1-Year return	37.67%
10-Year annualized return	13.84%

6 First Trust Water ETF (FIW)

Fund size	$1.85 billion
Expense ratio	0.53
1-Year return	32.98%
10-Year annualized return	13.97%

5 Putnam Sustainable Leaders A (PNOPX)

Fund size	**$6.66 billion**
Expense ratio	**0.92**
1-Year return	**41.90%**
10-Year annualized return	**14.17%**

4 First Trust NASDAQ® Cln Edge®StGidIfsETF (GRID)

Fund size	**$1.81 billion**
Expense ratio	**0.57**
1-Year return	**36.62%**
10-Year annualized return	**14.90%**

3 Praxis Growth Index I (MMDEX)

Fund size	**$644.90 million**
Expense ratio	**0.35**
1-Year return	**39.93%**
10-Year annualized return	**15.17%**

2 Nuveen Winslow Large-Cap Growth ESG I (NVLIX)

Fund size	**$953.55 million**
Expense ratio	**0.66**
1-Year return	**46.23%**
10-Year annualized return	**15.76%**

1 Brown Advisory Sustainable Growth I (BAFWX)

Fund size	**$9.88 billion**
Expense ratio	**0.64**
1-Year return	**34.05%**
10-Year annualized return	**16.54%**